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**2013 WELLMARK RATE PROPOSAL
REVIEW DECISION
Issued January 16, 2013**

Introduction

The Iowa Insurance Division received an annual individual rate filing for Wellmark Blue Cross Blue Shield (Wellmark) on November 7, 2012. Wellmark has requested a 12.2% rate increase effective April 1, 2013 for three blocks of their individual health insurance business and 13.3% for Blue Transitions and the Farm Bureau blocks 1-5. The blocks of business for which Wellmark is seeking a request represent different groups or policy forms. This is the first year for the Division to review the rate increase proposals for the Wellmark Farm Bureau blocks 1-5. The proposed premium rate increases for all the blocks of business will affect 146,767 policies.

Rate Filing and Review Procedure

Pursuant to a 2009 Executive Order, a rate filing shall receive an independent actuarial review to determine the adequacy and appropriateness of the proposed rate. The independent review is performed simultaneously as the Division in-house review. The Division maintains a list of independent actuarial firms and selected Magnum Actuarial Group of Hartland, Wisconsin. The reports of the [Division actuary](#) and [Magnum Actuarial Group](#) are available on the Division website.

In addition, Iowa Code section 505.19 requires the Commissioner to hold a public hearing on a proposed health insurance rate increase which exceeds the average annual health spending growth rate as published by the Centers for Medicare and Medicaid Services of the United State Department of Health and Human Services. The current rate is 5.8%. The Consumer Advocate for the Division solicits and receives public comments on the proposed health insurance rate increase. Those [comments](#) are posted online by the Iowa Insurance Consumer Advocate.

A hearing on the proposed rate was held Saturday, January 5, 2013 at 11:00 a.m. at the Mercy College of Health Sciences in Des Moines, Iowa. Access to the hearing was made available at 12 state-wide locations via the Iowa Communications Network (ICN.) The Consumer Advocate presented public testimony on the comments she had received from consumers. The Commissioner took comments from policyholders and concerned citizens. Comments were received from citizens at the Mercy College and from all 12 state-wide ICN sites. Laura Jackson, a representative of Wellmark, spoke on behalf of the carrier. The hearing lasted over two hours. A [transcript of the hearing](#) was posted online by the Iowa Insurance Consumer Advocate.

The Commissioner reviewed the actuarial reports from both the Division actuary and Magnum Actuarial Group. In addition, the Commissioner reviewed the comments made to her at the public hearing on

January 5, 2013 and the hundreds of comments received through phone calls, mail and the internet to the Consumer Advocate. (The comments received along with the report of the Consumer Advocate are available online.) The Commissioner also consulted with financial and actuarial staff within the Division.

Background on Premium and Healthcare Costs

The Division's [Annual Report to the Iowa Governor and Iowa Legislature on Health Care Costs](#) (Annual Report) shows that underlying health care expenditures are increasing. (A copy is available on the Division website.) The most recent data shows a \$77 million rise in the health care costs from the top five health care cost increase drivers. Premiums are typically calculated based upon estimated health care claims so when health care expenditures increase so do premiums. As noted in the report for example, when the cost of health care increases but the deductible does not, the increase in health care costs is added to the calculation of the health care premium. The impact of increase health care expenditures and the increase in premiums are not in the same proportion. Other factors affect premiums such as benefit design and the population covered by a particular carrier.

The Iowa Insurance Division recently hired the consulting firm, Oliver Wyman, to conduct a study on the overall health care spending in the state of Iowa. (A copy is available on the Division website.) Based upon information gathered, Oliver Wyman estimated that total health care spending in the State of Iowa for 2010 was approximately \$20.5 billion. Of that amount, approximately 14.9% encompasses fully insured plans. The study projects that total health care costs for 2012 will be about \$23 billion. So, clearly, between the two studies noted above, underlying health care costs are increasing.

Wellmark Blue Cross Blue Shield Background

Wellmark Blue Cross Blue Shield is comprised of two insurance companies operating in Iowa. One is Wellmark Health Plan of Iowa, Inc. which offers an HMO product. The second is Wellmark, Inc. that provides health insurance in the individual, small group, and large group markets. Wellmark, Inc. and Wellmark of Iowa maintain the greatest percentage of individual health insurance policyholders in Iowa (just over 80%). According to the most recent Annual Report, the loss ratios in 2011 for Wellmark of Iowa and Wellmark, Inc., respectively were 96% and 85%. This is well over the 80% loss ratio threshold required under federal law.

The per member per month health care costs for each Wellmark company as of 2011 were as follows: Wellmark of Iowa-\$177.61; and Wellmark, Inc.-\$204.05. Wellmark of Iowa had the third highest per member per month health care costs with Wellmark, Inc, having the highest of all the carriers providing data for 2011. These high per member per month costs will ultimately be reflected in health insurance premium rates.

Reports of the Actuaries

The actuarial reviews were conducted only on the underlying base rate proposal by Wellmark. The Division does not regulate rate changes due to age, geographical areas, smoker and non-smoker differentials, male and female differences and differences between individual contracts and family

contracts. However, carriers cannot arbitrarily change the above factor rates. Once the initial policy form is approved, all the factors will remain the same throughout the life of the policy form.

It is the purpose of the internal and independent actuarial reviews to determine if the increase proposed by Wellmark is justified and comports with the state and federal loss ratio standards. Under the new federal law, if the insurance carrier errs in the increase which is approved by the Division, the carrier will be required to pay rebates to policyholders using a retrospective formula under federal law. Iowa has a 75% federal loss ratio standard in effect for calendar year 2012. Because Wellmark met (and exceeded) the loss ratio standards, they paid no rebates to policyholders.

Both the Division actuary and Magnum Actuarial Group concluded that the rate increase proposals for Wellmark are reasonable and justified under current state and federal guidelines. In fact, they exceed current loss ratio guidelines. Wellmark's internal model assumed a target loss ratio for 85% for Pool 3 and 80% for Pools 4 and 5 which all exceed state and federal requirements. The Blue Transition Pool loss ratio of 127.8% far exceeds the guideline of 75%. (Iowa was granted an adjustment to the federal loss ratios to allow for a phased in period to meet the 80% medical loss ratio for individual health insurance policies. The 80% medical loss ratio will be effective in 2013.) In addition, both actuarial studies review the trend assumptions based upon past policy activity.

Consumer Concerns and Issues

Over 400 comments were received by the Consumer Advocate concerning the proposed Wellmark premium increase. During the public hearing on January 5, 2013, the Commissioner heard from Wellmark policyholders and concerned citizens throughout the state who questioned the rate increase. While rates have increased, personal incomes have remained flat. Many speakers spoke of personal decisions regarding maintaining health insurance or spending those premium dollars on other essential family needs. Many people questioned the administrative costs of Wellmark. As the largest health insurer in the state, many consumers felt they have little choice and selection in carriers. The market is very limited. Several citizens questioned the underlying costs of health care and the lack of oversight of medical costs and services including fraud.

There is clearly a weariness of continual yearly rate increases. This is especially true among policyholders who access their health care insurance on a limited basis. Studies show that about 20% of policy holders use 80% of the health care dollars. The concept of "spreading risk" amongst a group of policyholders can be a difficult concept to comprehend.

Overall, there was a great deal of frustration expressed. The health care delivery and payment system is complicated and fragmented. Charges and costs are not always transparent. Individuals who purchase their own health insurance without the expertise and purchasing strength of a business entity often feel they have little influence in the system. There is a distrust of how insurance is administered and regulated.

Future Premium Rate Issues and Cost Concerns

Additional changes are coming in the area of health care reform that will impact insurance premium rates. Beginning in 2014, insurers will not be able to decline coverage to applicants with pre-existing conditions. Insurers will be required to provide plans with minimum essential health benefits that may be greater than benefits provided today under certain plans. Gender and health risks will be eliminated as rating factors.

There will be limits on age rating. Plans will be required to offer coverage with minimum required cost sharing. To meet this, some plans will need to reduce the member out-of-pocket liabilities, which will increase premiums.

Preliminary discussions with health insurance carriers and internal discussions in the Division lead us to believe that many consumers will continue to see rate increases. Depending upon how policyholders are pooled for rating purposes, some consumers could see large rate increases while others may see some rate decreases. For example, if all individuals were in one pool, the young and healthy member rates would increase while older and less healthy members would experience little or no increase and perhaps even a decrease in their rates. A major factor in determining these premium levels will be the underlying cost of the health care delivery system.

The Commissioner has reviewed the testimony of policyholders and consumers, studied both actuarial reports and consulted with various Division staff regarding the Wellmark rate increase proposal. Tens of thousands of Iowans will be impacted by this decision-many in a negative fashion. Health care and health insurance costs have become key issues of debate in our state. The recent Oliver Wyman cost study and the Annual Report provide good primers on the challenges ahead for Iowa.

A healthy population is an essential component to a thriving state economy. The balancing of the needs of Iowa consumers and the solvency of an insurance carrier must be weighed carefully. There is no one silver bullet to lessen the increasing costs of both underlying health care delivery costs and the need for increased insurance premium rates.

Decision

There is no evidence that the proposed rate filings are discriminatory or excessive under Iowa statute. The Commissioner therefore approves the proposed individual rate increases filed by Wellmark for implementation on April 1, 2013.

Dated Tuesday, January 16, 2013.

A handwritten signature in black ink that reads "Susan E. Voss". The signature is written in a cursive, flowing style.

Susan E. Voss
Commissioner
Iowa Insurance Division